

Capital Assets in Governmental Accounting Reforms: Comparing Flemish Technical Issues with International Standards

JOHAN CHRISTIAENS

Gent University, Belgium

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ABSTRACT *Although some efforts have been made over the last twenty years, governmental capital assets are still the subject of many unresolved questions. This paper first presents an overview of the current differing accounting standards or research efforts with respect to governmental capital assets and then analyses the criteria of recognition, valuation and disclosure of capital assets in the reform of three kinds of Flemish governments. Their reformed accounting system is compared with IPSAS 17 (IFAC), which is an important internationally driven milestone in respect of capital assets. There appears to be a lack of a conceptual framework regarding capital assets and an attempt is made to structure the existing ideas. Another important issue in governmental accounting is drawing up the ‘first balance sheet’, which is necessary when accounting reforms are implemented. This study indicates that the fact that no separate accounting framework for capital assets with respect to the first balance sheet is distinguished, causes a lot of confusion in the discussion about accounting standards. Finally, the paper aims to provide actual cases as illustrations in analysing governmental accounting standards for capital assets. The examination of the adoption of the governmental accounting reforms, reveals that such reforms do not usually take the specific governmental characteristics of capital assets into account.*

1. Introduction

In contrast to the profit sector, where most of the accounting standards regulate capital assets in a similar way, i.e. by using generally accepted accounting principles (GAAP), the non-profit and public sector are still dealing with conceptual questions regarding capital assets. Although a few researchers (Anthony, 1985; Mautz, 1988; Pallot, 1992; Likierman, 1994; Lapsley and Pallot, 1997; Rowles *et al.*, 1998) and standard setters (CIPFA, GASB, IFAC) have

Correspondence Address: Johan Christiaens, Vakgr. Accountancy en Bedrijfsfinanciering, Universiteit Gent, Kuiperskaai 55E 9000 Gent, Belgium. E-mail: johan.christiaens@ugent.be

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made some efforts to clarify the situation over the last twenty years, capital assets are, in terms of financial accounting, still the issue of many unresolved questions and debates. In many countries public sector accounting is nowadays being reformed from cameralistic accounting, which was primarily designed to contribute to increased control of public money (Monsen, 2001), to business-like accrual accounting. The focus of former cameralistic accounting was mainly on the measurement and control of budgetary means spending.

In order to stress the importance of the budget, the term 'budgetary accounting' will henceforth be used in this paper to refer to cameralistic accounting. Governmental accounting reforms are part of a larger transformation carried out in governmental organizations (New Public Management). It includes the replacement of input control by output control, management by result, assigning responsibilities and introducing private sector management techniques (Hood, 1995). The issue of assets, particularly capital assets, can no longer be avoided, as it is an element of this New Public Management.

In the non-profit and public sector one cannot merely apply characteristics of capital assets from the profit sector, since there is a difference in a number of circumstances (Mautz, 1988; Pallot, 1990). First, governmental capital assets are, in contrast to enterprises, often held for other reasons than maximizing the economic objectives. Examples are roads, historical sites, art patrimony, churches, parks, woods, museums, libraries, livestock, monuments, infrastructure, military sites, national or common resources, etc. Second, many governments are used to applying a budgetary accounting approach, which is an authorization system in which the recording of capital assets is concentrated on authorizing the acquisition, rather than on the economic value or on the annual depreciation. Budgetary accounting practices are also a tradition for governments and serve managerial goals different from those of the reformed business-like capital asset accounting practices. Even when the former budgetary system has been significantly reformed, communication problems and contradictory budgetary principles often still occur (CICA, 1980, 1985; Gillet and Heiles, 1999; Christiaens, 2000). Third, non-profit and public sector organizations sometimes have at their disposal huge patrimonies of capital assets, of which they have not systematically kept records until their reform towards accrual accounting. This prevents their reform from being adopted smoothly and consistently, and implies many problems in respect of the recognition and valuation of those assets.

Even among the researchers and standard setters, there are differing points of view and debates, particularly in respect of the definition and valuation practices (Pallot, 1997). There is also a lack of consensus regarding depreciations, which has an impact on the profit and loss and, indirectly, also on management accounting (Cheng and Harris, 2000). In the first section, and based on previous research, this paper presents a general view of how governmental capital assets are defined, valued, processed and disclosed in a rather conceptual perspective, showing the differing points of view and the lack of consensus. In the second part, the study concentrates on the recent IPSAS 17, which is considered as an important

standard on governmental capital assets. In order to examine the characteristics and applicability of IPSAS 17, the treatment of capital assets, as prescribed in recent accounting reforms in Flemish governments, is analysed as an example of how standards are adopted. The reason Flemish governments were chosen as a case in point is that they are a prime example of continental European governments with a strong tradition of budgetary accounting, as is the case in, for example, France, Italy and Spain. The next part examines the extent to which adopting the reforms in the three kinds of Flemish governments is consistent with IPSAS 17 on capital assets. The remainder of the paper is devoted to possible explanations for, a critical survey of, the practices in Flemish governments, and their differences from IPSAS.

2. International Standards and Research Efforts

Definition of Assets in a Governmental Context

Definition. Generally, IASB (July 1989, para 49a) defines ‘assets’ as follows:

An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

Whereas IASB is the standard-setting body for the profit sector, the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) is the body that has developed a comprehensive set of standards for the public sector, viz. International Public Sector Accounting Standards (IPSAS). These IPSAS represent international best practices in financial reporting by public sector entities, which aim to enhance the accountability and transparency of the financial reports prepared by these entities. IFAC PSC (IPSAS, 2001a) starts with the same definition of the IASB, adding the term ‘service potential’ and replacing the word ‘enterprise’ by ‘entity’, which enlarges the definition:

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

This definition consists of the following elements:

(a) *Assets are resources.* Assets need to have a purpose or a destination: ‘Resources are means to an end’ (Pallot, 1992). The end is to generate cash flows or to provide services. This means that goods belonging to the governments without any end are no capital assets. An example might be certain natural resources the existence or application of which is either as yet unknown to the government, or will not be exploited.

(b) *Controlled by the entity.* Often the characteristic ‘controlled’ is described as ‘being the proprietor’ from a legal point of view. In business accounting, determining assets in terms of proprietorship is generally accepted. Thus, being the titular owner is interpreted as having all economic rights and controlling

the asset. However, this is not the same in the case of a governmental entity. Pallot (1992) presents four types of economic rights: custody, usufruct, alienation and destruction. It should be noted that governments' rights are often limited to the custody rights for many of their public assets. For example, governments have the right to maintain and repair roads, but often they are not the beneficiaries for the purposes of their use, because they are not allowed to alienate the roads or destroy them. On the contrary, they have the duty to repair them when necessary.

According to Pallot (1992), being the titular owner, but not having the usufructuary right implies an imperfect ownership, and these types of assets should be treated as 'community assets'. She proposes acknowledging such goods as capital assets, that is if at least the government is the titular owner. Pallot's concept is followed by other researchers (Stanton and Stanton, 1997; Näsi *et al.*, 2001), but for rather general reasons such as difficulties in the valuation of heritage assets, ignorance of the social and cultural value, prohibition or inability to sell or to secure loans on heritage assets. One notices that the first motivation actually only presents a problem when drawing up a first balance sheet or in the case of donations. When acquiring what was heritage or community assets through purchase, a reasonable value is agreed on without facing valuation problems.

For Federal States in the USA (FASAB, 1996), a distinction is made between capital assets that are controlled in terms of 'proprietorship' or 'stewardship'. The former refers to assets that are used to provide general government services. The latter considers items in stewardship, with no alternative use such as defence equipment, heritage assets, as well as land not used to provide government services or goods (e.g. land in the public domain and national parks). Pointing out differing consequences can motivate the distinction between 'proprietorship' and 'stewardship': the term '*proprietary* assets' implies revenues, whereas '*stewardship* assets' implies provided services (Mautz, 1988).

(c) *As a result of past events.* Expected assets cannot currently be acknowledged as assets. The mere intention to purchase a building, for instance, does not fall within the definition of an asset. The reason for this criterion is only to distinguish existing assets from future assets.

(d) *Economic benefits or service potential.* Looking at the IASB definition, benefits are defined only within an economic perspective. The economic benefits are described as the potential to provide, directly or indirectly, future net cash inflows or cash equivalents to the enterprise. In an extension for public sector accounting, IFAC PSC has enlarged the definition to include non-economic benefits called 'service potential'. The term 'service potential' is used to define the ability of an asset to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows. Examples are the books in a public library, for which it is not the receipts or contributions that

constitute the main goal of the government, but rather the education and the cultural services (Rowles *et al.*, 1998).

Apart from an extension to non-economic benefits, the term 'service potential' also shows evidence of a second characteristic. The definition stresses that '... future economic benefits or service potential are expected to *flow to the entity*' (emphasis added). Economic benefits are supposed to flow to the accounting entity. Yet, in governments, one should note that the non-economic benefits do not flow to the accounting entity, but to the citizens and the users. This problem is countered by defining non-economic benefits as 'service potential', which, from the perspective of the government, must be perceived as the possibility of service efforts. Thus, assets for which the usufruct is not destined for the government but for its citizens, remain capital assets.

Recognition

The mere fact of being an asset does not automatically imply its recording on the balance sheet. IASB, and also other standard-setting bodies (e.g. IFAC), prescribes the criterion for recognition that the entity should be able to measure the asset reliably. This criterion is usually met because in most cases the exchange transaction identifies the value. However, problem areas are (1) the reliable measurement of certain capital assets when drawing up the first balance sheet in an existing government and (2) the valuation of donations in kind received by a government.

In contrast to the approach of IASB and IFAC, in terms of which criteria are defined to meet all possibilities, some standard setters (e.g. CICA, 1989; GASB, 1999) have confined themselves to a mere enumeration of some examples of governmental capital assets that should be recognized.

Classification and Disclosure

A question that governments in the middle of their reform are dealing with, is the way in which capital assets should be classified, and how they should be disclosed. The classification often depends on the different information requests by the supervisory bodies and other users. There appears to be a diversity of concepts and terminology, and even a considerable disagreement when it comes to classifying and disclosing capital assets (Pina and Torres, 1995; Scheid and Lande, 2000; Torres and Pina, 2001). IFAC PSC (2000) discusses a classification according to the level of liquidity, a classification of financial versus non-financial assets, or a classification between restricted (e.g. donated to an entity for a special purpose), unrestricted and secured assets (reserved for a lender). Another classification could be (1) the distinction between operational and non-operational capital assets, (2) national property versus fixed assets and other capitalized investments or (3) a classification according to the function of the capital asset (Hansen *et al.*, 1998). Some standard-setting bodies and researchers

(IFAC PSC, 2000) emphasize the user needs as a factor for classification. Others recommend that certain assets such as community assets (Pallot, 1990; Rowles *et al.*, 1998) should be reported under a separate category because, compared with 'business assets', their performance or economic benefits are difficult to measure. Furthermore, others recommend that certain assets such as *trusteeship assets* (Barton, 1999) should be reported in physical terms in the notes, and not in financial terms in the balance sheet. Trusteeship assets are natural assets provided freely to governments and used as public goods. They are held for the benefit of current and future generations and for the protection of the environment. Major examples comprise unclaimed mineral resources, natural water resources, forests on public land, seas, beaches, etc. Barton's concept is based, first, on the consideration of public goods where consumption benefits are shared and cannot be limited to particular consumers, or where economic activity results in additional social costs or benefits, which are not paid for by the producer or consumer who causes them. In addition to the above-mentioned conceptual problems, major difficulties are encountered in valuing such assets. They are likely to be arbitrary and artificial as they (1) have no cost of production, (2) are used as public rather than as private goods, (3) are normally not available for sale and (4) have external effects.

Disregarding the specific nature of governmental assets ('community assets'), some countries make their integration as ordinary business assets mandatory (New Zealand, France, the Netherlands and Belgium). Others countries, such as the UK, more or less apply Pallot's approach, albeit that their 'community assets' are integrated as a separate category in the balance sheet, instead of recording them off-balance sheet. This reform in the UK was accompanied by the abandoning of the former system of 'debt charge accounting'. It may sound strange that around this period of ending the 'debt charge accounting', Anthony (1994) started presenting the advantages of such a system. According to Anthony, capital assets should be disclosed and depreciated in accordance with their system of financing, which actually stands for a comeback of the system of 'debt charge accounting', as is shown in Table 1.

From the perspective of financial management, the motivation for Anthony's approach is mainly the use of accounting data. Based on Anthony's idea, Cheng

Table 1. Capital assets' recognition according to the system of financing

Financing of the capital asset	Accounting method
Donations	No recognition as capital assets and no depreciation
Loans	Disclosure of the capital asset, but no depreciation. Interests and redemption are charged in the P/L Account (= 'debt charge accounting')
Current revenues	Disclosure of the capital assets and depreciation
Deferred results	No recognition as capital assets and no depreciation

and Harris (2000) combined the criteria ‘use of the capital assets’ and ‘system of financing’, which resulted in another concept. Looking at the different authors and standard setters, there does not appear to be a consensus about the presentation in the balance sheet, or about the disclosure requirements.

Valuation

Acquisition of capital assets. Two situations can be distinguished: governments acquire their assets at market conditions, or governments acquire assets through donations or at a nominal price not representing their fair value. The first situation presents no problems, and there is an international consensus to use the historical cost. For donations, there is also a consensus to use the estimated fair market value at the date of acquisition, but in contrast to the historical cost, it is a vague, subjective notion. IFAC PSC defines fair value as the amount for which an asset could be exchanged between knowledgeable and willing parties in an arm’s-length transaction. However, how can one determine whether parties are knowledgeable and willing? IFAC PSC (2001b) goes on to state that the valuation of capital assets depends on the reliability of the measurement of the cost or fair value (Barton, 1999). Undoubtedly, this will present a problem for most donations and internal transfers of capital assets between governments.

Movements in value during the lifetime (revaluation). Both Study 5 (1995) and IPSAS 17 (2001) of IFAC PSC allow a system of systematic revaluation of capital assets based on their fair value. The yearly revaluation can be positive or negative, and is treated *vis-à-vis* a revaluation surplus on the liability side of the balance sheet. On the other hand, Study 5 (1995) also indicates examples of countries such as Germany and Japan where revaluation is not allowed, not even in business accounting. Thus, there is no international consensus as to whether or not entities should revalue their capital assets. Even within the countries in which revaluation applies, there appears to be a difference of opinion concerning the frequency (annually, or only if the fair value differs materially from its carrying value), the conditions (only if there is a sufficient yield of return, or related to other financial ratios) and the method of revaluation (related to price indices, or determined by a member of the valuation profession).

Movements in value during the lifetime in minus. Another problem deals with the establishment that capital assets will often be consumed over time or that they will lose service potential. Accurate reporting of this wear or loss of service potential is one of the major characteristics and benefits of adopting accrual accounting. Several standard setters (GASB Statement 34, 1999; IFAC PSC IPSAS 17, 2001b) generally agree to use depreciation as the accounting practice of allocating the acquisition cost of capital assets over their estimated life. Nevertheless, there are still some other practices worth considering.

IFAC PSC (1995) shows evidence of three possible methods that can be applied, at least in the case of infrastructure. Infrastructure is an example of a capital asset where the *service-providing* function normally has to be constant. Therefore, renewal accounting and deferred maintenance are two methods more likely to fit in this governmental context. Many governmental capital assets such as infrastructure, school buildings etc. often represent essential services that have to be maintained continuously. Assets under renewal accounting are disclosed on the balance sheet as a fixed amount, while all the investments of repair and maintenance related to them are charged as expenses. Only when there is a permanent and fundamental expansion or reduction to the asset, will the fixed amount in the balance sheet change.

On the other hand, the deferred maintenance method involves the recording of an estimated amount necessary to make up the wear of the infrastructure assets as a cost in each financial year. It differs from renewal accounting, as the cost is determined by reference to estimates of what should have been spent to maintain the capital assets. As such, it provides a forward-looking management tool for cash flow projections. Both renewal and deferred maintenance differ from the traditional depreciation method, as the cost recorded in the financial statements is independent of the method of valuation used for the asset, and not a percentage of asset value (depreciation).

Considering heritage assets, IPSAS 17 (IFAC PSC, 2001b) is not very strict: heritage assets may be recognized as capital assets and may be depreciated; renewal accounting and deferred maintenance are not considered contrary to earlier IFAC studies. For New Zealand local authorities (FASB, 2001), capital assets belonging to property, plant and equipment should be depreciated. In New Zealand, renewal accounting is no longer permitted for infrastructure assets, although it had been proposed earlier by NZSA (Pallot, 1997). In France (Gillet and Heiles, 1999) local government accounting has been reformed since 1997. In order to limit the effects on the budgetary accounting system, which is

Table 2. IFAC's valuation practices

Depreciation	Renewal accounting	Deferred maintenance
The wear or loss of service potential of the capital asset is charged systematically according to a fixed pattern <i>ex post</i>	The wear or loss of service potential of the capital asset is supposed to happen when cost of repair is made in order to maintain the capital asset	Based on a feed-forward maintenance plan the repair (= wear) is spread <i>ex ante</i> in time
Traditional system of depreciation as it is well known in business accounting	Fixed value system	Planned provisions for risks and charges, maintenance and repair

technically related to the financial accounting system, depreciation is limited to renewable capital assets (trucks, equipment, machines, furniture etc.) and fixed assets such as buildings, which are used in enterprises. 'Heritage' assets such as roads, school buildings and infrastructure should not be depreciated. In the UK CIPFA (1990) recommends applying renewal accounting for both infrastructure and historical treasures. Finally, in Canada, the CICA (2002) considers renewals accounting as a method to account for and report the stock and use of infrastructure.

Burns (1993), who introduced 'Condition based depreciation or renewals annuities', developed a kind of combination of renewal accounting and deferred maintenance. This method can improve the management of long-living infrastructure assets that require a great amount of maintenance to ensure their service potential. There are still a number of other options to report on the use of capital assets, particularly on the maintenance of infrastructure, with each having their own proponents. Walker *et al.* (2000) examined a number of possibilities and concluded that an optimal form of reporting on infrastructure consists of a combination of financial and non-financial disclosures.

Retirements and Disposals

Governments are entitled to change the juridical nature of assets and this is also subject to accounting treatment. The standards related to this subject are similar to those in the business context. IPSAS 17 (IFAC PSC, 2001b) states that items of property, plant and equipment should be eliminated from the statements on disposal or when the asset is permanently withdrawn from use and no future economic benefit or service potential is expected from it. In other words, when they do not fall within the definition of an asset or the criteria for recognition in other respects, they should disappear from the statements. On the other hand, capital assets retired from active use but held for disposal or changed in nature, need to be reclassified and require an adjusted accounting treatment. With regard to such retirements and disposal of certain capital asset, governments can incur cost because of legal obligations. Shutting down a state-owned nuclear power station, for example, causes several environmental obligations. In this context, the FASB has issued a specific statement (SFAS 143), which deals with the accounting for asset retirement obligations (FASB, 2001).

3. Accounting Reform in Flemish Governments

In this part of the contribution, attention is first paid to a description of the accounting systems adopted in Flemish governments over the last years. These ongoing reforms are examples of non-harmonized governmental accounting reforms. Furthermore, the processes involved in arriving at the practices in Flemish governments, as well as the extent to which the reformed accounting systems are consistent with IPSAS 17, are described and examined.

Description of the Accounting Reforms Adopted in Flemish Governments

Generally, Flemish governmental accounting reforms were driven by NPM influences (Hood, 1995) as they were motivated to adopt the intention to adopt business accounting and business-like management tools in the governmental sector. Such NPM influences likewise occur in many other countries such as Australia, New Zealand and Sweden (Olson *et al.*, 1998) and aim at providing governments with a business-like culture and at making them more autonomous, responsible and accountable for their performance. This general tendency also occurs in Belgium where almost every kind of government has undergone at least a financial accounting reform in the direction of business accounting practices.

Traditionally, many governments in different countries were used to apply a budgetary accounting system (Oettle, 1990; Monsen, 2002). The focus in such systems was, on the one hand, on the authorization and recording of budgets to receive and to spend, and, on the other, on the actual payments of the according revenues and expenditures. Budgetary accounting, however, should not be mixed up with so-called cash accounting. Revenues and expenditures due in a budgetary system are not the same as cash inflows and cash outflows in a cash system (Monsen, 2002). In budgetary accounting much additional attention is paid to the budgetary appropriations and commitments, whereas in cash accounting only occurring cash inflows and cash outflows are recorded. A budgetary system has the advantage that it is simple and fairly objective in its measurements and that resource spending can be regulated. Unfortunately, budgetary accounting offers little room for other managerial information or decision-making.

Considering the NPM objectives, the changing role of accounting in the public sector becomes obvious. Instead of being a one-entry recording system of financial data and budget to date, the new financial accounting system, which has been transferred from business accounting systems, aims at measuring the economic accomplishments and providing an improved financial management tool for governments.

Some authors have the impression that a governmental accounting reform towards accrual accounting is rather a means of regaining legitimacy. In their research, Carpenter and Feroz (1992) question the 'reasons behind' the accounting reform in New York by claiming that it is a facelift in order to deny the poor financial situation of the city. Although not scientifically proven, there were rumours in Belgium that the municipal accounting reform was triggered by the poor financial situation of certain major cities such as Antwerp and Liège. The consequent search for legitimization by disclosing capital and reserves as part of the balance sheet was another breeding ground for the reform (Nieuwsblad, 1994).

As shown in Table 3, the accounting reforms in local governments are prescribed and regulated by the legislator. The Flemish legislator has not paid attention to the existing standard setting know-how and the experiences of accounting professionals, as is often the case in Anglo-Saxon countries. Neither has the legislator looked at international accounting standards (e.g. IPSAS),

Table 3. Accounting reforms in Flemish local governments

Accounting reform	Municipalities	OCMWs	Provinces
Accounting regulators	Federal legislation Royal Decree	Flemish legislation Decree	Federal legislation Ministerial Decree
Reformed accounting system	Accrual accounting	Accrual accounting	Accrual accounting
Transition from the traditional budgetary accounting	The (new) accrual accounting system is linked to the remaining budgetary accounting system	The budgetary accounting system is abandoned and replaced by an integrated accounting system	Integrated budgetary and accrual accounting system
NPM	Only accrual accounting	Extensive NPM reform	Only accrual accounting
Effective date	1995	2002	2003
Initiation/ transition	Pilots starting from 1992	Pilots starting from 1998	No pilots

and academic researchers and accountants have had little influence. The setting up of the accounting reforms was worked out in a rather isolated way, mostly by a few governmental treasurers together with some officials working for the legislator. One should not forget that Flemish governments have almost no accountants who have been trained in a business context on their payroll. The profession of the accountant is considered to be a position operating only in the private sector; almost no bookkeeper or treasurer working for a government is a member of the institute of accountants at the same time. One could argue that this kind of strict distinction between privately organized accountants on the one hand and governmental accountants on the other, is a main factor in explaining the many differences, conceptual problems and difficulties in implementing governmental accounting reforms in Flanders. Moreover, although the subject remains the same in the three types of governments, different legislators have regulated the reforms, and have done this from different points of view (see Tables 3 and 4), leading to important differences. The fact that accounting reforms are set up by the legislator instead of being self-generative (Lapsley and Pallot, 2000) does not appear to be a guarantee for a convergent approach. On the contrary, the local government accounting reforms appear to drift apart in Flanders. The fact that different legislators develop these reforms can be regarded as an important factor explaining the appearance of the divergence.

All the reforms show that there is a tendency towards full accrual accounting, transferred from Belgian business accounting and in harmony with the Fourth European Directive. However, there are a number of differences as also indicated

Table 4. Flemish governmental accounting rules compared with IPSAS

Capital assets	Municipalities	OCMWs	Provinces	IPSAS 17
Definition	Only an enumeration	Only an enumeration	Only an enumeration	Tangible assets to be used during more than one reporting period
	Property	Property	Property and use: somewhat a distinction between 'proprietary' and 'agency'	Directly: future economic benefits or service potential and reliable measurement
	Indirectly: not defined	Indirectly: not defined	Indirectly: not defined	Indirectly: safety or environmental reasons
Recognition	Specific: – military equipment YES – Infrastructure YES – Forests YES – Heritage assets YES	Specific: – military equipment N/A – Infrastructure N/A – Forests YES – Heritage assets YES	Specific: – military equipment N/A – Infrastructure YES – Forests YES – Heritage assets YES	Specific: – military equipment YES – Infrastructure YES – Forests, . . . not regulated – Heritage assets Option

Measurement (= valuation)				
• First balance sheet	Amalgamation of valuation rules	Amalgamation of valuation rules	Amalgamation of valuation rules	PPE at cost or fair value
• Current accounting periods				
– Initial measurement	At cost	At cost	At cost	PPE at cost
– subsequent expenditure	Asset/expense	Asset/expense	Asset/expense or renewal accounting	Asset/expense
– Measurement subsequent to initial recognition	Revaluation (in plus) obligatory and systematically	Revaluation (in plus) optional	Revaluation (in plus) optional	‘Benchmark treatment’ or ‘Alternative treatment’
– Depreciation	Strictly regulated system of depreciation	System of depreciation	Strictly regulated system of depreciation or renewal accounting	System of depreciation
– Impairment losses	Limited use	Limited use	Limited use	Obligatory
– Retirements and disposals	Elimination of the asset	Elimination of the asset	Elimination of the asset	Elimination of the asset
Classification	Strictly regulated	Strictly regulated	Strictly regulated	Some guidelines
Disclosure	Organization-wide	Per business unit	Organization-wide	Extensive

further in Table 4. On the one hand, one can say that the different characteristics of the three kinds of governments play only a minor role in bringing about these differences. On the other hand, it is hard to deny that these differences are caused by the separate development of the reforms by the different legislators without communication between them.

A considerable divergence has also taken place regarding the transition from their former budgetary accounting system. Table 3 summarizes the far-reaching different approaches. In municipalities, the budgetary accounting system is completely maintained and dominates the (new) financial accounting system. Both systems are technically linked in a way that certain financial accounting entries fully depend on their corresponding budgetary appropriation. This implies that if there is, for example, no budget for equipment, there will be no journal entry in accrual accounting, even if the purchase has actually taken place in the current accounting period. Thus, budgetary rules influence the financial accounting system and, accordingly, the financial statements.

OCMWs, on the other hand, have completely abandoned their former budgetary accounting system and have replaced it by an integrated accounting system including a business-like accrual accounting, cost accounting and a budgeting system. In this kind of government, problems caused by the supremacy of the budgetary accounting system are principally eliminated, but in exchange they sometimes challenge difficult adaptations of their budgetary management and practices.

Finally, in the provincial reform, one has kept the traditional budgetary accounting system with its particular features. Additionally, an accrual accounting system has been integrated, using the concept of a 'mega general ledger' (Christiaens and Vanhee, 2002). In this concept, the budgetary and accrual accounting systems can be combined harmoniously into one system by means of an integrated General Ledger. Such a ledger consists of two or more independent ledgers (i.e. a double-entry ledger for accrual accounting, as well as a single-entry ledger for budgetary accounting) in which each respects the other's accounting principles.

Consistency with IPSAS 17

In order to reflect the situation in Flemish local governments, Table 4 shows how capital assets should be accounted for according to the reformed accounting regulations and in comparison with the IPSAS 17 standards.

Definition. IPSAS 17 §12 provides a general definition. Property, plant and equipment are tangible assets that are held for use in producing or supplying goods and services, for rental or for administration. Furthermore, they are expected to be used during more than one reporting period. Contrary to the Flemish situation, the definition is not based on the characteristic of the ownership. By stating that they 'are held' by the entity, and that it is the entity that 'receives the rewards attached to the asset', IPSAS considers it implicit. Furthermore, in the

Flemish context, no real definition of property, plant and equipment is formulated. The Flemish legislator has limited itself to an enumeration of the different types of capital assets.

Recognition. According to IPSAS 17 §13, PPE should be recognized as an asset when:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- (b) the cost or fair value of the asset to the entity can be measured reliably.

To meet the first condition, there should be sufficient certainty that the entity will receive the rewards attached to the asset. The second condition will readily be satisfied, since the exchange transaction, showing evidence of the purchase, identifies its cost. However, in the situation of non-exchange transactions such as donated assets in kind, it could be impossible to determine the cost or even the fair value if the asset is not subject to a market.

In Flemish governments, there is no such emphasis on the output in order to recognize capital assets. Capital assets are recognized only on their substance and the government's proprietorship, not on their output. Furthermore, there is no reference to the need of a reliable measurement of the cost or fair value in the Flemish legislation, and this differs from IPSAS 17.

Although they do not directly increase the future economic benefits or service potential, IPSAS 17 §19 recognizes PPE as capital assets if the entity needs them to obtain the future economic benefits and service potential from its other assets. Examples are PPE for safety or environmental reasons. This extension is rather important since, for such assets, the question about economic benefits and service potential is irrelevant. It is precisely the complementary character of such PPE with respect to other, directly recognized, assets that counts.

Contrary to the Flemish situation where there is an obligation, the recognition of heritage assets is merely an option in IPSAS 17. However, if a government does recognize heritage assets, it must apply the disclosure requirements, but not the measurement requirements. Apparently, the standard is rather ambiguous with respect to such important governmental assets.

Measurement: first balance sheet. A government that adopts accrual accounting for the first time 'may initially recognize PPE at cost or fair value' (IPSAS 17 §81). If the acquisition took place at no cost, or for a nominal cost, the cost is considered to be the fair value at the date of acquisition. Surprisingly, the standard uses the term 'may' instead of 'should', and this undermines the obligation of adopting this rule. It is not made clear whether 'may' implies that the recognition itself is not obligatory or that one is not obliged to consider the fair value in recognizing the asset, and that one could consider the asset's estimated historical value, for example.

IPSAS 17 remains unclear regarding the date at which the cost or fair value should be considered. Only for an item at no cost or for a nominal cost is there no doubt, since it has to be the date of acquisition. Apparently, for donated items the standard shows a preference for the historical cost. However, IPSAS does not prescribe whether this historical cost should be written down in the period between acquisition and first recognition or not. Except for a few specific and less important items, the three kinds of Flemish governments should initially recognize all capital assets—even donated assets or other assets acquired at no cost or at a nominal cost. In contrast to IPSAS, a variety of valuation practices may occur (the fair value, the appraisal value, the historical value, the insurance value, a fixed sum, the replacement value, the manufacturing value, etc.).

Measurement: current accounting periods

Initial measurement. Flemish governments have to record a capital asset at its cost when acquired, and this rule is in accordance with IPSAS 17. The cost of a self-constructed asset is determined by using the same principles as for an acquired asset. Considering donated assets and the like, the Flemish accounting rule differs from the IPSAS regulations. IPSAS 17 §23 sees its fair value as the amount for which the asset could be exchanged between willing parties in an arm's-length transaction. Flemish governments are given different possibilities: apart from the fair value, they could apply an estimated value, a replacement value or even an insurance value. Apparently, IPSAS emphasizes a more strictly economic (performance) oriented view of the donated assets.

Subsequent expenditure. According to IPSAS 17 §33, subsequent expenditures should be added to the carrying amount of an asset under the same conditions as for the recognition of the asset. Otherwise, they have to be recognized as expenses. Examples of subsequent expenditures include an upgrading of machine parts or the modifications made to equipment in order to extend its useful life (e.g. a new engine in a van the government uses).

Since repairs and maintenance restore or maintain future economic benefits or service potential, they are usually recognized as an expense when incurred, unless they increase the capacity of the asset (§35). Major components of certain capital assets, such as the surface of a road, require replacement at regular intervals. Subsequent expenditures leading to replacement of such components have a certain useful lifetime. Consequently, they should be recognized as separate capital assets and written off (§37). All these regulations are similar in the Flemish context, except for provinces where the legislator allows a system of 'renewal accounting' (see also Section 2 and Table 2) in which the capital asset is not written off. Instead, its repair and maintenance are regarded as an expense when incurred.

Measurement subsequent to initial recognition. IPSAS 17 considers two possible treatments. In its 'Benchmark Treatment' (§38), an asset should be carried at its cost minus accumulated depreciation and impairment losses. On the other hand, according to the 'Alternative Treatment' (§39), an asset should systematically be carried at a revalued amount, which is its fair value at the date of revaluation minus subsequent accumulated depreciation and impairment losses. Further, the standard provides some guidelines with respect to the revaluation practices.

Flemish OCMWs and provinces are mainly in line with IPSAS's 'Benchmark Treatment', with the exception that they are allowed to revalue in, plus the carrying value of capital assets, with the consequence of a revaluation surplus and based on an ad hoc valuation. This allowed revaluation is not on a regular basis and has to be disclosed and justified. On the other hand, the accounting regulations for municipalities apply the 'Alternative Treatment' in some respects. However, the main difference is that Flemish municipalities do not consider the actual fair value; they all have to apply the same general revaluation index for buildings and a tax-based, individually determined, revaluation rate for land, and they have to do so unconditionally. Apparently, the real economic value is not deemed important, since more attention is given to the rigid application of certain imposed accounting rules.

Depreciation. IPSAS 17 discusses the system of depreciation in function of the useful life with a variety of methods (§§54–60). The depreciation method that is applied, as well as the useful lifetime, should be reviewed periodically, thereby resulting in accounting adjustments.

OCMWs completely comply with IPSAS 17, in contrast to municipalities and provinces. In these last two groups, the lifetime of the different kinds of capital assets is legally defined, and thus adjustments become inapplicable. As discussed above, provinces have the option of using renewal accounting under certain conditions. Although it is discussed in certain IPSAS guidelines and studies (e.g. IFAC PSC 1995), such an option is not foreseen in IPSAS 17.

Impairment losses. IPSAS 17 (§66 and 67) refers to IAS/IFRS 22 and 36: if the carrying amount exceeds the recoverable amount, impairment losses occur and these should be recorded. The recoverable amount is the highest of the asset's net selling price and the asset's 'value in use' that is represented by the present value of its future cash flows. The Flemish governments pay little attention to 'impairment losses'. In the legally prescribed 'Chart of Accounts' of two of the three kinds of governments (i.e. OCMWs and provinces), provision is made for the accounts 'writing-downs of capital assets' other than depreciations, but only in a rather exceptional way. An important reason for the limited attention for impairment losses is the influence of the traditional budgetary accounting system. In this system, there is no room for the accounts depreciation and writing-downs, since they do not result in cash outflows.

Retirements and disposals. In IPSAS 17 (§68) a capital asset is eliminated on disposal or when it is permanently withdrawn from use. The regulations are fairly similar in Flemish governments.

Classification. IPSAS 17 is quite flexible in standardizing the issue of 'classification'. It indicates the requirement of judgement in identifying separate items (§17) and provides some examples of separate classes. This is not the case in the Flemish context where the formal classification is regulated fairly strictly: the different possible classes are prescribed in a rigid way. However, it can be noted that such a formal prescription does not completely guarantee a corresponding factual classification in governmental accounting practices. Moreover, the contents of the prescribed classification differ between the three kinds of Flemish governments. The traditional governmental framework, in which the budgetary decisions depend on the compliance with a strict set of budgetary classes, can explain these rigid regulations. For example, a budget appropriated for police services should not be disbursed on museum acquisitions. It is also noteworthy to mention that the contents of the prescribed classification differ between the three kinds of Flemish governments.

Disclosure. The issue 'disclosure' appears to be important in IPSAS 17. Flemish governments undergo similar requirements of disclosure, except for some elements where IPSAS is more far-reaching. Examples are the obligatory disclosure of the estimated cost of restoring the site of items of property, plant and equipment (§74); the methods of estimating the useful lives behind depreciation rates (§75) and the fair value of the capital asset if it is materially different from the carrying amount (§79). Originally, the style of disclosure in Flemish governments was driven by the need for detailed overviews of the different budgetary appropriations and their accomplishments, leading to large and sometimes unreadable 'files'. This kind of reporting enabled the yearly discharge of the government's responsibility. Although the manner of disclosing should have been adapted towards a brief and adequate financial report by which the reader can form an opinion of the financial governmental situation, in practice the aforesaid tradition seems to have been maintained. For example, a study in Flemish municipalities (Christiaens and Hermanns, 2002) revealed an average length of their financial statements of 315 pages in the accounting period 1995. The important length of such reporting undeniably undermines the readability and probably also the actual use.

Summarizing the comparison between the treatment of capital assets in Flemish governments and their treatment according to IPSAS 17 leads to the following findings. First, looking at the considerations about the valuation of capital assets, such as their systematic revaluation ('alternative treatment'), the stress on fair value and on impairment losses, IPSAS appears to be driven by an IAS/IFRS perspective, mainly aiming at reporting to (economic) 'global players'. This implies that more attention is given to output orientation, whereas in Flemish

governments their traditional input orientation appears to be maintained. Second, IPSAS 17 does not pay much attention to the traditional budgetary accounting system that governments, mainly in European countries, were used to applying. The transition from such a budgetary system to a business-like accrual accounting system creates many problems mostly due to their different objectives and framework (Bowerman, 1998; Caperchione, 2000). In Flemish governments, the traditional budgetary system has played an important role in adopting and developing the new accrual accounting system, and certain important problems have still not been resolved. Third, contrary to IPSAS 17, the Flemish governments are subject to many rigid regulations, which sometimes leads to problems of the 'form over substance' kind. An example is the systematic and unconditional revaluation based on legally imposed fixed rates without any respect for the real situation. Another example of a rather strict regulation is the classification of budgetary items: except for OCMWs, where each OCMW can detail its own classification, the other kinds of governments should adopt a prescribed list of classes. This is necessary because the classification of budgets is, except for OCMWs, an important means of adequately appropriating certain resources and of taking legally correct decisions on the type of spending. This characteristic of governmental accounting was unfortunately not dealt with in IPSAS 17. Fourth, it appears that IPSAS treats heritage assets ambiguously, that certain kinds of assets (e.g. forests and natural resources) are not regulated, although they can have an important influence, and that other typical governmental assets such as donations are treated rather harshly, as if they have the same characteristics as in a business context. Finally, in contrast to the accounting innovation in Flemish provinces where 'renewal accounting' is a valuation option under certain conditions, IPSAS 17 excludes this method, which is rather surprising since earlier IPSAS studies proposed this method (IFAC PSC, 1995).

4. Possible Explanation and Critical Considerations

When one looks at IPSAS 17, one could make remarks on the conceptual accounting framework—remarks which indicate structural difficulties that could explain the problems that arise. From a practical point of view, a number of weak points regarding the governmental accounting reforms in Flemish authorities are discussed, and possible explanations are presented.

Problems in IPSAS 17

Conceptual framework. An interesting question is why capital assets accounting is one of the most controversial issues in reformed governmental accounting, in contrast to capital assets accounting in enterprises. The system of business accounting, which is more than 500 years old, is rather unique and, to an important extent, accepted across the whole world. However, it seems impossible

to come to a somewhat generally accepted conceptual framework for governmental accrual accounting in different countries and even in different kinds of governments within one country.

One can argue that several problems and differing standards are related to the lack of a governmental accounting framework (Lapsley, 1988). According to Scheid and Lande (2000), governmental financial accounting can be considered as a 'financial concept' to measure the wealth of a government and its capacity to meet its liabilities. However, governmental accrual accounting can also be defined from the point of view of a 'managerial concept', meaning that accrual accounting is a means of supporting management decisions regarding fixed assets. In the traditional cameralistic accounting system many European governments were used to, capital assets were not accounted, except for their budgetary impact in the year of acquisition. Thus, officials had no useful source of information to enable an adequate management. In the first concept, there is no need to record heritage assets since they cannot be realized in order to meet liabilities. A third concept could be the 'accountability concept', according to which the reporting reflects how well the officials have used the resources entrusted to the government. Although the scientific efforts and debates on capital assets are numerous, the need remains for generally accepted criteria and definitions. What is a governmental capital asset, how should it be valued, what are the relationships with its treatment in budgetary accounting, how should it be classified, how should it be processed in accrual accounting during the coming accounting periods and how should it be reported?

As mentioned above, IFAC has chosen for a conceptual accounting framework inspired by the IAS/IFRS standards, which aim to improve the financial reporting of large enterprises that are quoted on the stock exchange. Such a framework serves the user who is interested in the profitability and in the economic results of the organization. However, governments are not driven by profitability or by economic results: they have to perform social services with the least effort and do so in an accountable way. Therefore, one could seriously question the appropriateness of a conceptual framework derived from a specific group of enterprises.

Transition from budgetary accounting to accrual accounting. In the literature concerning governmental capital assets, there appears to be a lack of research into the relationship between the traditional budgetary accounting and accrual accounting system. The following questions are seldom examined or answered:

- Should the definition of a capital asset in budgetary accounting (which serves as an authorizing system) be the same as in accrual accounting (which serves as a value reporting system) and what are the consequences of possible differences?

- How should the traditional budgetary accounting system be technically linked with the reformed accrual accounting system in respect of capital assets? Often, officials keep thinking and deciding in terms of budgetary accounting, even after an accounting reform (Christiaens, 2000).
- What should be done with the budgetary accumulated surpluses when implementing the accrual accounting reform? Should those budgetary surpluses be equal to the reserves on the liability side?
- What should be done with cut-off contradictions (e.g. in a budgetary system cut-off is based on appropriations; in accrual accounting cut-off is based on 'earned revenues') and other competing rules between budgetary accounting and financial accounting?
- What is to be done with economic activities which have to be recorded in financial accounting since they represent the reality, but which were neither approved nor allowed in budgetary accounting?

With respect to the transition process, IFAC PSC has published Study 14 (IFAC PSC, 2002), which is intended to assist governments wishing to change to accrual accounting in accordance with IPSAS, but this study is elaborated on only from a practical point of view and does not provide conceptual answers to the questions above.

For the last years, a number of research efforts have been worked out regarding different aspects of public administration, New Public Financial Management (e.g. Olson *et al.*, 1998) and privatization of public services (e.g. Newberry, 2002). This evolution and extension of research efforts in the public sector are certainly an important merit. On the other hand, certain technical issues (e.g. considering the link between the former budgetary accounting system and the new accrual accounting system) appear to remain unresolved, even in IPSAS. More particularly, there remains to be a lack of generally accepted accounting principles considering governmental capital assets. One could argue that, taking the transition from the former budgetary accounting to business-like accrual accounting and its technical consequences into account, problems have to be resolved since their answer form a prerequisite for the possible success of governmental accrual accounting reforms. Therefore, this study critically analyses the current answers and also looks at how they have been adopted in Flemish governments as compared with IPSAS.

First balance sheet difficulties. Governments undergoing an accounting reform towards accrual accounting have to draw up their first balance sheet. Hence, the following question arises: 'At what value should an item, which is qualified for recognition as a capital asset, be initially measured?'. Consequently, governments require historical records of their existing non-monetary assets and liabilities, which they often no longer possess. Up to now, legislators and standard setters have paid little attention to this matter. One cannot deny that the consequences of how capital assets are treated in the first balance sheet are very

important as they are long-lasting and their potential value could be huge and could dominate all other items (Barton, 1999). Hereafter, some important existing standards are discussed.

The Financial Reporting Standard 3 (ASB, 2001) applicable to New Zealand local authorities recognizes the problems caused by the lack of historical records. It allows experts to base the valuation of non-monetary assets on estimations on the condition that they are independent or that the valuation is confirmed by a second opinion. IFAC PSC Study 11 (2000) also discusses the necessity of estimations. However, the framework behind the use of estimations (i.e. estimate of what?) is not made clear. Second, according to Statement No. 34 of the GASB (1999), the initial valuation should be based on historical cost. If the historical cost is not practically measurable because of missing records, an estimation of the historical cost by means of calculation should be worked out. Such an estimation could be determined either by (1) calculating the current replacement cost of a similar asset and deflating this cost through the use of price-level indices to the acquisition year (or estimated acquisition year if the actual year is unknown) or (2) using other information such as bond documents used to obtain financing for construction or acquisition of infrastructure assets, engineering documents etc. A third approach, used in Australian local governments (AASB, 1996), allows the non-recognition of certain assets which have been acquired prior to the drawing-up of the first balance sheet and in respect of which significant practical problems would arise in determining a reliable measure of a carrying amount. Anyway, such assets have to be disclosed in the notes, together with the accounting policy adopted with respect to them. The recognition criterion that IFAC proposes in its Study 5 (1995) is the replacement value. This fourth approach can be criticized in that there is no historical information on the value of art patrimony, historical sites, collections of museums etc., and a replacement value is not possible either (e.g. Stonehenge, Pyramids of Cheops). It will often be possible to express a market value, although views differ strongly on that matter. That is the reason why IFAC PSC Study 5 advises a 'value in alternative use', i.e. a valuation that is given a use different from the one that could apply to the capital asset. A fifth possibility presented by the same Study 5, referring to the situation in France and New South Wales (Australia), is the disclosure of such capital assets at a symbolic value of \$1 or €1. Finally, IPSAS 17 (IFAC 2001b) prescribes the valuation of property, plant and equipment at its cost or at fair value if acquired at no or at nominal cost, but it does not explicitly consider the first balance sheet treatment.

Apparently, relevant standards and research efforts with respect to the first balance sheet remain limited, and there are still considerable disagreements. The distinction between the approach for the first balance sheet and the approach for all further accounting periods appears to be underestimated in the existing accounting literature, and this inevitably causes a number of misunderstandings. For monetary assets and liabilities the problem is less important since the accounting trails and documents are more obvious and a difference of opinion

is more limited. Non-monetary assets such as the capital assets, in contrast, create serious problems, as they need historical records. One could argue that standard setters are too hasty in filling in some answers without considering different conceptual approaches. A suggestion would be to think of two independent approaches as shown in Table 5. According to the ‘continuity approach’ the accrual accounting system has existed for many years. Therefore, one has to look back at (all) the former years in an attempt to recover and to reconstitute the value of the actual non-monetary assets and liabilities based on their historical value possibly after an index increase. In terms of this approach, one would start in the first balance sheet with capital assets already being depreciated (‘idea of continuity’).

On the other hand, in the ‘zero-based approach’ it is assumed that the governmental entity is established on the date of the first balance sheet, which implies that all capital assets are inventoried at that moment and valued at their current value at that time. Such an approach avoids the lack of historical data, as well as the tremendous discussions about the origin, the original value, the impact of repair and maintenance etc.

Although the ‘continuity approach’ seems to be preferable, it also shows some important negative aspects. In practice, one will be limited to a number of years in search for historical records and a false certainty will remain. Bearing this in mind, one could recommend the ‘zero-based approach’, as it offers a reliable value and reflects reality in the best way. Nevertheless, it leaves room for discussion concerning the subjectivity of estimations, especially in the context of ‘window dressing’. In that case, governmental entities artificially upgrade their assets in order to achieve a reasonable equity capital. An example might be the road pricing in Flemish municipalities, where the price varies between

Table 5. Conceptual approaches first balance sheet

Approach	Advantages	Disadvantages
Continuity	<ul style="list-style-type: none"> +Continues the past +An objective standard of value 	<ul style="list-style-type: none"> – Often impossible to retrieve all historical records – Assets having a lifetime larger than the depreciation period are not recorded although still really existing – Time-consuming process
Zero-based	<ul style="list-style-type: none"> +Takes the reality into account +Better practical realization +Starts with a clean sheet 	<ul style="list-style-type: none"> – Which standard of value to use? – Sometimes a subjective standard of value (an estimation) – No information about evolutions in the past

approximately €1 and €12 (Christiaens, 2000), without showing a reasonable explanation.

Critique on the Practices in Flemish Governments and Possible Explanations

As shown in Tables 3 and 4, the reformed accounting practices in the three Flemish governments examined, differ to an important extent from IPSAS 17 and they deal with some important difficulties. The three reforms are inspired by business accounting legislation derived from the Fourth European Directive. International governmental standard setters such as IFAC with its IPSAS have not played a role in the Flemish reforms, which surprisingly implies a certain isolation. This isolation is even worse when looking at the three different legislators that have prepared their own accounting reforms without consulting one other. Undoubtedly, the factor of having three more or less isolated accounting legislators explains much about the differing approaches and accounting concepts in the three kinds of governments.

As mentioned above, IPSAS 17 has seriously neglected the issue of traditional budgetary accounting and its transition to accrual accounting. The Flemish governments, on the other hand, have paid much attention to this subject, but unsuccessfully. The municipalities have completely kept their former budgetary accounting system and they have 'added' accrual accounting, but in a subordinate way. OCMWs received a full accrual accounting system, but in exchange for abandoning their original budgetary accounting system, while provinces are somewhere in the middle.

In order to enable governments to adopt their accounting reform, the legislator has imposed a variety of valuation rules, particularly with respect to the first balance sheet. However, these rules represent different, sometimes conflicting, approaches. Many of the problems also involve a lack of governmental accounting professionals. Contrary to the situation in other countries, Flemish governments have almost no governmental accountants on their payroll. In other words, except for just a few consulting accountants, the government trains all the officials working in a governmental accounting environment without having any business accounting experience. To make any summary at all in terms of the accounting reform, one could posit that IPSAS 17 went too far, whereas Flemish governments have not gone far enough.

5. Conclusions

Even after a number of years of new public sector reforms, governments are still waiting for solutions on a number of unresolved questions and problems regarding capital assets. Researchers and standard setters keep debating on a number of basic accounting questions as to the definition, valuation, classification, depreciation, presentation and the link with budgetary accounting of a rather important volume of capital assets. The current study discusses

the most important accounting issues of governmental capital assets and highlights some underestimated items such as the need for additional non-financial reporting of governmental assets and investments.

The study presents some possible explanations for the general lack of consensus and the difficulties governmental accounting reforms are dealing with. First, there are the remaining conflicts and implementation problems of adopting accrual accounting in an existing traditional environment of budgetary accounting. Second, it is not clear enough which conceptual framework should be followed. In other words, some relevant questions regarding the recognition and valuation of certain assets such as heritage assets, military assets, public goods etc. remain unanswered. This is, to a large extent, related to the difficulties to fit in such assets in a business-oriented accrual accounting system where there is room only for assets creating economic output. A third, rather underestimated, reason is undoubtedly the conceptual and practical difficulty of drawing up a first balance sheet and especially the lack of scientific interest in this matter. Apparently, even after the creation of IPSAS 17, which might be called a prominent internationally developed accounting standard that regulates governmental capital assets, most of the discussed difficulties still remain to be solved.

A look at the recent accounting reforms in Flemish governments shows that the different conceptual characteristics related to capital assets become reality when reforms are put into practice. In Flanders, business accounting appears to be copied, without paying full attention to a differing conceptual framework with respect to accounting in enterprises. Moreover, the Flemish reforms have not sufficiently taken the transition difficulties caused by the former budgetary accounting system and by the need for a first balance sheet into account. It can be argued that the examination of both existing standards, particularly IPSAS 17, and the concepts developed by researchers still reveal the need for normative research regarding governmental capital assets.

List of Abbreviations

AASB	Australian Accounting Standard Board
ASB	Accounting Standards Board
CICA	Canadian Institute of Chartered Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FRS	Financial Reporting Standard
FRSB	Financial Reporting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board

IFAC	International Federation of Accountants
IFAC PSC	International Federation of Accountants Public Sector Committee
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
NPM	New Public Management
NZSA	New Zealand Society of Accountants
P/L	Profit/Loss
PPE	Property, Plant and Equipment
PSC	Public Sector Committee
SFAS	Statement of Financial Accounting Standards

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